

STATEMENT BY

**JOHN GAGE
NATIONAL PRESIDENT
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO**

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HOUSE COMMITTEE ON GOVERNMENT REFORM**

REGARDING

**THE NEED TO PROVIDE FAIR COMPENSATION TO THE
FEDERAL WORKFORCE**

ON

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Madam Chairwoman, and Members of the Subcommittee: My name is John Gage, and I am the National President of the American Federation of Government Employees, AFL-CIO (AFGE). On behalf of the more than 600,000 federal employees across the nation and around the world represented by AFGE, I thank you for the opportunity to testify today on proposed legislation to address what some call the federal government's human capital crisis.

The Administration insisted on depriving the 170,000 federal employees reallocated to the Department of Homeland Security (DHS), and some 700,000 civilian employees of the Department of Defense (DoD) of many longstanding rights and protections under title 5, including the rights established in the chapters covering pay, classification, performance appraisal, appellate rights with respect to adverse actions, and the right to union representation through collective bargaining. Finally, the Administration has repeatedly questioned the patriotism and loyalty of federal employees who are union members, despite their demonstrated love of country, commitment to public service, and history of heroism both day to day and in moments of national emergency, before, on, and since September 11.

Privatization, union busting, pay stagnation, repeal of civil service protections, and questioning of patriotism – these are facts that define the present milieu for federal employees. Unfortunately, this is the milieu into which S. 129 and H.R. 1601 were introduced, bills that purport not only to expand managers' authorities further, but also, optimistically, to make federal employment more attractive to prospective job candidates.

Since the joint hearing on S.129 and H.R.1601 last April, the Senate marked up S.129 and made several improvements. Indeed, the only problematic elements of S.129 that remain are the unfunded recruitment and retention bonus authorities. AFGE strongly prefers S.129 as marked up because the broad demonstration project authorities discussed below have been eliminated. We urge the Committee to take similar action with regard to H.R. 1601.

The fact is that most of the provisions of S.129 and H.R.1601 are not highly objectionable in themselves, unless one measures them against their stated goal of helping to address the government's self-inflicted "human capital crisis," or considers them in the context of the far more pressing needs of federal employees and agencies. Given the myriad problems affecting federal employees and federal agencies, one must ask whether paying some new employees three years worth of salary over their first two years is an optimal use of resources. Should the government put its resources into paying bonuses worth 50% of base salary to those who threaten to leave either for another federal job or a job outside government if they don't get what they want? Are these strategies preferable to paying all federal employees competitive base salaries throughout their careers, rather than just for the first two years or in years when they can manage to mount a credible threat to leave their agency in the lurch? These are the first questions that arise in contemplation of the bonus provisions in both H.R. 1601 and S.129 as marked up.

The resource question is central because the issue of funding in connection with the expanded bonus is neglected in both bills. Exercise of those

authorities would therefore come at the expense either of hiring adequate numbers of employees to handle an agency's workload, or denying salary adjustments to other employees (or groups of employees) who are either not new or are not willing to extort a big bonus by threatening to leave.

One must question the wisdom of diverting money from a finite salary account to large bonuses for new employees who may stay only for the length of their two or four year service periods, especially in light of the fact that the "human capital crisis" is occasioned by the government's need to replace its retiring *career* workforce. Does an agency come any closer to resolving any portion of the problem presented by the retirement eligibility of half the federal workforce if payment of a jumbo recruitment bonus means abolishing a position in order to attract someone who only plans to stay for two years? Common sense suggests that this will only worsen the human capital crisis, not alleviate it. What can agencies expect newly recruited employees to do after eligibility for 50% bonuses expires?

Will such employees, who would not have accepted the federal position absent the 50% bonus (otherwise why pay it?), stay when their annual incomes decline by one third? One expects that they will not. Any investment in training and any hoped for succession from the earlier generation will have been lost. All the agency will be able to do is go through the whole process again, a constant churning through inexperienced new recruits.

Meanwhile, what are career federal employees who have dedicated themselves and their careers to federal service supposed to think? Are they to

infer that the federal government only values employees in their first two years or employees who repeatedly threaten to leave? Where is the recognition that they have been deprived of the promise of federal salaries that are comparable to private sector salaries? The Federal Employees Pay Comparability Act (FEPCA), passed in 1990 with bipartisan support and signed into law by the first President Bush, promised not only pay comparability, but a comparability that would recognize difference in local metropolitan labor markets.

FEPCA introduced a long list of pay flexibilities that managers were authorized to use not only for recruitment and retention, but also for performance management. What follows is not an exhaustive list of FEPCA's flexibilities, yet it does give some perspective to the claim that introduction of "flexibilities" into what has (wrongly) been described as an inflexible and antiquated system for compensating federal employees will be the answer to the human capital crisis.

FEPCA introduced:

- locality pay adjustments
- special pay rates for certain occupations
- critical pay authority
- recruitment and retention flexibilities that allow hiring above the minimum step of any grade
- paying recruitment or relocation bonuses
- paying retention bonuses of up to 25% of basic pay

- paying travel and transportation expenses for new job candidates and new hires
- allowing new hires up to two weeks advance pay as a recruitment incentive
- allowing time off incentive awards
- paying cash awards for performance
- paying supervisory differentials to GS supervisors whose salaries were less than certain subordinates covered by non-GS pay systems
- waiver of dual compensation restrictions
- changes to Law Enforcement pay
- special occupational pay systems
- pay flexibilities available to Title 5 health care positions, and more.

The marked up version of S.129, and H.R.1601, merely increase the size of the bonuses managers are authorized to offer and streamline critical pay authorities. One might conclude from this that its sponsors believe that the size of the bonuses authorized by FEPCA is all that stands between current law and a resolution of the human capital crisis. Yet how do we know that the size of bonuses managers are authorized to pay has been an obstacle to the successful recruitment and retention of federal employees? The Office of Personnel Management (OPM) surveyed agencies in 1999, almost a decade after this broad range of flexibilities had been authorized. The OPM report found that less than 1% of eligible federal employees had ever benefited from the exercise of these authorities. The reason the flexibilities had been so rarely used, cited

again and again by respondents, was that there was no separate funding for them.

AFGE considers the approach to financial incentives for recruitment and retention contained in this legislation to be at best incomplete, at worst, misplaced. Federal salaries are too low not just for prospective employees, or for employees the agencies expect to employ only for a short period. Salaries are too low for all employees. There are market-driven reasons why the federal government should pay competitive salaries, and there are values-driven reasons why the federal government should pay competitive salaries. While market-driven reasons such as recruitment and retention may on the surface only appear to apply to prospective employees and “flight risks,” they in fact apply to all employees.

In addition, the federal government should pay competitive salaries and wages to both its blue- and white-collar workforces because it is the right thing to do. The U.S. government and WalMart are today our nation’s two largest employers. WalMart indisputably represents the low road in compensation and working conditions. Its strategy of minimal wages, erratic just-less-than full time schedules designed to evade Fair Labor Standards Act (FLSA) requirements and health insurance subsidy eligibility, aggressive union avoidance, unchecked managerial flexibility and its attendant lawsuits charging racial, gender, and ethnic discrimination, constant turnover, and low morale is one the federal government should not even try to emulate. Indeed, the federal government

should be a model employer, exemplifying the high road, a positive standard for fair treatment and fair compensation.

AFGE does support the use of bonuses and other financial incentives to reward federal employees. Yet they should never be used as substitutes for a fully funded regular pay system. The “human capital” crisis these bonuses are ostensibly meant to alleviate is in part a result of the repeated failure to implement and fund FEPCA.

We are concerned that neither the marked up version of S.129, nor H.R. 1601 provides funding for either the payment of bonuses, or the expansion of critical pay authority. And it is difficult to pretend that, if enacted, these provisions would improve the government’s ability to recruit and/or retain federal employees. Bonus payments do not count as basic pay for purposes of retirement or other salary adjustments. They are a poor substitute for the provision of competitive salaries and regular salary increases that allow employees to maintain decent living standards.

Before implementing a bonuses-for-some (and super-sized salaries for a lucky few) instead of an adequate-salaries-for-all approach, we ask you to consider the following: Should employees who are loyal and have made a decision to dedicate their careers to public service be penalized financially relative to those whose only loyalty is to their individual paycheck? Should the federal pay system reward only those willing to extort a bonus from an agency by continually threatening to leave in the middle of an important project? Or should the federal government pay adequate, competitive salaries to *all* its employees?

The legislative proposals make the following scenario possible: a recent graduate is hired “directly” for a position at a university job fair, effectively beating out three other candidates who had applied for the position through normal competitive procedures (among the three were a veteran with relevant experience and the same degree from the same university, a disabled veteran with 10 years of federal employment and a similar degree, and a recent graduate from another university with the same type of degree but a higher GPA who mistakenly thought the best route to federal employment was to follow procedures and fill out a Standard Application Form 171). To encourage the direct hire person to accept the position, he is promised bonuses worth 50% of salary each year for two years (indeed, he must also accept a service agreement wherein he agrees to work for the agency for a period of two years). During that two-year period, the agency would repay the employee’s student loans. At the end of the service agreement, the employee threatens to leave in the middle of a project. The agency wants to keep him, so a retention bonus of 25% of salary, for two years, is authorized because a “critical need” is identified. At the end of this period, the privatization quotas catch him in their evil vise, and his job is directly converted to contract. Over four years, this employee has received about five and a half years of salary, plus student loan repayment. And the expertise and experience he has built up over that period is lost to the agency. But the authorities and the privatization agenda remain, so the agency can go through this song and dance all over again.

It's a windfall for the hypothetical employee, quite an expensive experiment for taxpayers, and quite an insult to the thousands of rank and file federal employees who are taken for granted and denied competitive salaries, benefits, or any form of job security. The question is: Is it a reasonable response to the "human capital" crisis? Will it allow the government to replace the more than 50% of federal employees who will be eligible to retire within the next 5 years with a new generation of employees who exhibit the same level of skill, dedication, and reliability as our nation has relied upon in the past? What chance is there that employees in the existing workforce who have as good or better skills than those hired under the authorities being contemplated will share in the kind of "critical need" bounty to be lavished on new workers who are either discarded within a short period of time, or expected to leave?

We urge those looking for a way to address the human capital crisis to stop looking for short-term fixes. The government's need for a high quality workforce and comprehensive in-house capacity are neither temporary nor short-term, and the government as well as the employees deserve to have the security and continuity that a workforce with full civil service protections and fully-funded, competitive salaries convey. Taxpayers' interests are best served by knowing that career federal employees, sworn to uphold the public good and work in the public interest for the long term, perform government work.

Human capital crises are not like the weather; they do not just happen. The retirement wave is not a problem because America's workforce is smaller today than it was 30 years ago, the American workforce grows larger each year.

This crisis is entirely of the government's own making, and can be reversed by implementing the proper policies.

We believe that the place to start with respect to crafting a solution is to identify what caused the human capital crisis, and implement policies that would reverse and repair the actions that led us to this point. The retirement wave that constitutes the material end of this crisis was foreseen more than a decade ago and was what gave rise not only to the establishment of the Federal Employees Retirement System (FERS) in 1983, but it is also a big part of what motivated the enactment of FEPCA in 1990.

FEPCA presented a moderate and gradual approach to what was then the single biggest problem facing federal employees and those who hoped to recruit and retain them: inferior salaries that lagged behind those in the private sector by an average of about 30%. FEPCA's promise of closing the pay gaps by locality over a ten-year period was never realized because two successive administrations have failed to fund the system. The Clinton Administration cited undisclosed "methodological" problems after the economic emergency loophole became ludicrous in the face of large budget surpluses and the longest economic expansion on record. The Bush Administration has simply refused to comply, insisting that they are only interested in federal pay adjustments awarded on an individual by individual basis at managers' discretion.

As federal employees endured year after year of broken promises regarding comparability, some 400,000 federal jobs were eliminated as part of a politically inspired downsizing campaign that was implemented without regard to

agency missions or long-term cost to taxpayers. We will never know what portion of the workload these 400,000 federal employees performed was contracted out. Some portion of the work was simply taken on by the survivors whose salaries continued to languish in the shadow of FEPCA's unrealized promise.

And then came the present Administration's privatization quotas. Although the most recent rhetoric from the Office of Management and Budget (OMB) casts the current version of the quotas as requiring certain numbers of large and small competitions carried out under certain time frames, rather than specific numbers of jobs to be outsourced, the impact is the same. Privatization quotas, which require every Executive Branch agency to privatize or review for privatization 850,000 federal jobs that have been deemed "commercial" has been as destructive of the federal workforce and the reputation of the federal government as an employer as the repeated failure to fund or implement FEPCA. Compliance with President Bush's privatization quotas, along with the implementation of the OMB's controversial rewrite of Circular A-76 (which sets forth the rules for deciding whether and how to privatize government work) have combined to worsen dramatically the prospects of solving the government's human capital crisis.

In November 2003, President Bush signed into law legislation that gave the Secretary of Defense broad new authorities affecting collective bargaining, the pay and classification, appellate rights, and rules regarding hiring, assigning, reassigning, detailing, transferring, promoting, and reducing numbers of

employees. The Defense Department was granted these authorities before anything was known about the personnel system that will be implemented in the Department of Homeland Security (DHS) which has similar authorities, or whether the DHS experiment will turn out to be a success or failure. AFGE strongly opposed the DoD bill and continues to consider DoD's approach highly dangerous and ill-advised. There is no question that the more than 200,000 federal employees AFGE represents within DoD recognize the agency's actions and intentions as hostile to their interests. They know and understand that the "pay for performance" schemes that DoD intends to impose will involve substantial financial sacrifice for them and their families.

AFGE's members who work in DHS and DoD are on the front lines every day ensuring the safety of our nation and its citizens. It was unconscionable that the Administration chose to punish these workforces at the very moment that they were engaged in helping to respond to heightened security threats and mobilize for the war with Iraq. They are still stunned by the charge that their efforts to protect their civil service union rights were evidence that they constituted a lazy, unreliable, unpatriotic, and unmotivated workforce eager to undermine our nation's security.

It is in that context that we view the provisions of H.R. 1601 relating to demonstration project authority, which were stripped from S.129. The House bill and the original Senate bill eliminate the cap on the number of federal employees in a demonstration project. But eliminating the 5,000 employee maximum undermines not only the concept of demonstration projects as experiments. At

the same time, it undermines the role of Congress in setting the terms and conditions of federal employment.

The language that removes the numerical limits on demonstration projects makes it possible to put almost the entire federal government under a “demonstration project.” Likewise, whole agencies or groups of agencies could be part of one “demonstration project.” Although AFGE has long supported the use of demonstration projects that were genuine experiments and had the consent and support of affected employees, as expressed through the collective bargaining process, our recent experience in Congressional debates over the DHS and DoD personnel systems has given us reason to be more cautious. In addition, putting entire agencies, groups of agencies, entire occupational series, or other very large groups under these projects risks doing away with the General Schedule, the Federal Employees Pay Comparability Act (FEPCA), and the classification system as a substantial baseline against which to measure the success or failure of the project.

The fact is that the DHS and DoD personnel systems will constitute enormous demonstration projects, since not only do they cover roughly 900,000 federal employees (half of the total Executive Branch employment), but they also will be implementing systems that have never “demonstrated” any kind of success. Indeed, one of the most frustrating aspects of the debate over whether to grant open-ended authority to DoD with regard to the design and implementation of new pay and classification systems was DoD’s insistence that its past experience with demonstration projects had taught it all it needed to know

about alternatives to the General Schedule. Indeed, the results of pay-for-performance projects were distorted and important facts such as funding levels, and the views of employees, particularly those who are members of racial minorities, were omitted. The “best practices” DoD identifies are not best practices from the perspective of employees’ aspirations be treated fairly, judged according to objective criteria, and have opportunities to hold management accountable for demonstrated evidence of discrimination in pay and/or assignments.

The fact that the results of pay for performance demonstration projects were not presented in a fair or balanced way in the debates over expanded managerial authorities for DoD or DHS makes us especially cautious regarding proposals to expand demonstration projects’ size or ubiquity. Further, it elevates the importance of making certain that the baseline pay system is not caricatured, and that its virtues as well as its weaknesses are well-understood.

As proponents of pay for performance put forth their propaganda, it is worth recalling that the General Schedule system they seek to eliminate and replace has considerable pay for performance components. The basic structure of the General Schedule is a 15-grade matrix with ten steps per grade. Movement within a grade or between grades depends upon the satisfactory performance of job duties and assignments over time. That is, an employee becomes eligible for what is known as a “step” increase each year for the first three years, and then every three years thereafter up to the tenth step. *Whether or not an employee is granted a step increase depends upon performance*

(specifically, they must be found to have achieved “an acceptable level of competence”). If performance is found to be especially good, managers have the authority to award “quality step increases” as an additional incentive. If performance is found to be below expectations, the step increase can be withheld.

The federal position classification system, which is separate and apart from the General Schedule and would have to either continue or be altered separately and in addition to any alteration in the General Schedule, determines the starting salary and salary potential of any federal job. As such, a job classification determines not only initial placement of an individual and his or her job within the General Schedule matrix, classification determines the standards against which individual worker’s performance will be measured when opportunities for movement between steps or grades arise. **And most important, the classification system is based upon the concept of “equal pay for substantially equal work”, which goes a long way toward preventing federal pay discrimination on the basis of race, ethnicity, or gender.**

The rationales offered by proponents of pay for performance in the federal government have generally fallen under one of four headings: improving productivity, improving recruitment prospects, improving retention, and punishing poor performers. Perhaps the most misleading rationale offered by advocates of pay for performance is that its use has been widespread in the private sector. Those who attempt to provide a more substantive argument say they support

pay for performance because it provides both positive and negative incentives that will determine the amount of effort federal workers put forward. Advocates of pay for performance wisely demur on the question of whether pay for performance by itself is a strategy that solves the problem of the relative inferiority of federal salaries compared to large public and private sector employers. That is to say, when pay for performance is referred to as complying with the government's longstanding principle of private sector comparability, what they seem to mean is comparability in *system design*, and not comparability in salary levels.

Does a pay system that sets out to reward individual employees for contributions to productivity improvement and punishes individual employees for making either relatively small or negative contributions to productivity improvement work? The data suggest that they do not, although the measurement of productivity for service-producing jobs is notoriously difficult. Measuring productivity of government services that are not commodities bought and sold on the market is even more difficult. Nevertheless, there are data that attempt to gauge the success of pay for performance in producing productivity improvement.

Although individualized merit pay gained prominence in the private sector over the course of the 1990's, there is good reason to discount the relevance of this experience for the federal government as an employer. Merit based contingent pay for private sector employees over the decade just past was largely in the form of stock options and profit-sharing, according to BLS data.

The corporations that adopted these pay practices may have done so in hope of creating a sense among their employees that their own self interest was identical to the corporation's, at least with regard to movements in the firm's stock price and bottom line. However, we have learned more recently, sometimes painfully, that the contingent, merit-based individual pay that spread through the private sector was also motivated by a desire on the part of the companies to engage in obfuscatory cost accounting practices.

These forms of "pay for performance" that proliferated in the private sector seem now to have been mostly about hiding expenses from the Securities and Exchange Commission (SEC), and exploiting the stock market bubble to lower actual labor costs. When corporations found a way to offer "performance" pay that effectively cost them nothing, it is not surprising that the practice became so popular. However, this popularity should not be used as a reason to impose an individualized "performance" pay system with genuine costs on the federal government.

Jeffrey Pfeffer, a professor in Stanford University's School of Business, has written extensively about the misguided use of individualized pay for performance schemes in the public and private sectors. He cautions against falling prey to "six dangerous myths about pay" that are widely believed by managers and business owners. Professor Pfeffer's research shows that belief in the six myths is what leads managers to impose individualized pay for performance systems that never achieve their desired results, yet "eat up enormous managerial resources and make everyone unhappy."

The six myths identified by Professor Pfeffer are:

- (1) labor rates are the same as labor costs;
- (2) you can lower your labor costs by lowering your labor rates;
- (3) labor costs are a significant factor in total costs;
- (4) low labor costs are an important factor in gaining a competitive edge;
- (5) individual incentive pay improves performance; and finally,
- (6) the belief that people work primarily for money, and other motivating factors are relatively insignificant.

The relevance of these myths in the context of the sudden, urgent desire to impose a pay for performance system on the federal government is telling. Professor Pfeffer's discussion of the first two myths makes one wish that his wisdom would have been considered before the creation of the federal "human capital crisis" through mindless downsizing and mandatory, across-the-board privatization quotas. Pfeffer's distinction argues that cutting salaries or hourly wages is counterproductive since doing so undermines quality, productivity, morale, and often raises the number of workers needed to do the job. Did the federal government save on labor costs when it "downsized" and eliminated 300,000 federal jobs at the same time that the federal workload increased? Does the federal government save on labor costs when it privatizes federal jobs

to contractors that pay front-line service providers less and managers and professionals much, much, much more?

Salaries for the 1.8 million federal employees cost the government about \$67 billion per year, and no one knows what the taxpayer-financed payroll is for the 5 million or so employees working for federal contractors. But as a portion of the total annual expenditures, it is less than 3%, according to Congressional Budget Office (CBO) projections. Regarding the relevance of low labor costs as a competitive strategy, for the federal government it is largely the ability to compete in labor markets to recruit and retain employees with the requisite skills and commitment to carry out the missions of federal agencies and programs. Time and again, federal employees report that competitive salaries, pensions and health benefits; job security, and a chance to make a difference are what draw them to federal jobs. They are not drawn to the chance to become rich in response to financial incentives that require them to compete constantly against their co-workers for a raise or a bonus.

Professor Pfeffer blames the economic theory that is learned in business schools and transmitted to human resources professionals by executives and the media for the persistence of belief in pay myths. These economic theories are based on conceptions that human nature is uni-dimensional and unchanging. In economics, humans are assumed to be rational maximizers of their self-interest, and that means they are driven primarily, if not exclusively by a desire to maximize their incomes. The inference from this theory, according to Pfeffer, is that “people take jobs and decide how much effort to expend in those jobs based

on their expected financial return. If pay is not contingent on performance, the theory goes, individuals will not devote sufficient attention and energy to their jobs.”

Further elaboration of these economic theories suggest that rational, self-interested individuals have incentives to misrepresent information to their employers, divert resources to their own use, to shirk and “free ride”, and to game any system to their advantage *unless* they are effectively thwarted in these strategies by a strict set of sanctions and rewards that give them an incentive to pursue their employer’s goals. In addition there is the economic theory of adaptive behavior or self-fulfilling prophesy, which argues that if you treat people as if they are untrustworthy, conniving and lazy, they’ll act accordingly.

Pfeffer also cites the compensation consulting industry, which, he argues, has a financial incentive to perpetuate the myths he describes. More important, the consultants’ own economic viability depends upon their ability to convince clients and prospective clients that pay reform will improve their organization. Consultants also argue that pursuing pay reform is far easier than changing more fundamental aspects of an organization’s structure, culture, and operations in order to try to improve; further, they note that pay reform will prove a highly visible sign of willingness to embark on “progressive reform.” Finally, Pfeffer notes that the consultants ensure work for themselves through the inevitable “predicaments” that any new pay system will cause, including solving problems and “tweaking” the system they design.

In the context of media hype, accounting rules that encourage particular forms of individual economic incentives, the seeming truth of economic theories' assumptions on human nature, and the coaxing of compensation consultants, it is not surprising that many succumb to the temptation of individualized pay for performance schemes. But do they work? Pfeffer answers with the following:

Despite the evident popularity of this practice, the problems with individual merit pay are numerous and well documented. It has been shown to undermine teamwork, encourage employees to focus on the short term, and lead people to link compensation to political skills and ingratiating personalities rather than to performance. Indeed, those are among the reasons why W. Edwards Deming and other quality experts have argued strongly against using such schemes.

Consider the results of several studies. One carefully designed study of a performance-contingent pay plan at 20 Social Security Administration (SSA) offices found that merit pay had no effect on office performance. Even though the merit pay plan was contingent on a number of objective indicators, such as the time taken to settle claims and the accuracy of claims processing, employees exhibited no difference in performance after the merit pay plan was introduced as part of a reform of civil service pay practices. Contrast that study with another that examined the elimination of a piece work system and its replacement by a more group-oriented

compensation system at a manufacturer of exhaust system components.

There, grievances decreased, product quality increased almost tenfold, and perceptions of teamwork and concern for performance all improved.¹

Compensation consultants like the respected William M. Mercer Group report that just over half of employees working in firms with individual pay for performance schemes consider them “neither fair nor sensible” and believe that they add little value to the company. The Mercer report says that individual pay for performance plans “share two attributes: they absorb vast amounts of management time and resources, and they make everybody unhappy.”

One further problem cited by both Pfeffer and other academic and professional observers of pay for performance is that since they are virtually always zero-sum propositions, they inflict exactly as much financial hardship as they do financial benefit. In the federal government as in many private firms, a fixed percentage of the budget is allocated for salaries. Whenever the resources available to fund salaries are fixed, one employee’s gain is another’s loss. What incentives does this create? One strategy that makes sense in this context is to make others look bad, or at least relatively bad. Competition among workers in a particular work unit or an organization may also, rationally, lead to a refusal on the part of individuals to share best practices or teach a coworker how to do something better. Not only do these likely outcomes of a zero-sum approach

¹ “Six Dangerous Myths about Pay”, by Jeffrey Pfeffer, Harvard Business Review, May-June 1998 v. 76, no.3, page 109 (11).

obviously work against the stated reasons for imposing pay for performance; they actually lead to outcomes that are worse than before.

What message would the federal government be sending to its employees and prospective employees by imposing a pay for performance system? At a minimum, if performance-based contingent pay is on an individual-by-individual basis, the message is that the work of lone rangers is valued more than cooperation and teamwork. Further, it states at the outset that there will be designated losers – everyone cannot be a winner; someone must suffer. In addition, it creates a sense of secrecy and shame regarding pay. In contrast to the current pay system that is entirely public and consistent (pay levels determined by Congress and allocated by objective job design criteria), individual pay adjustments and pay-setting require a certain amount of secrecy, which strikes us as inappropriate for a public institution. An individual-by-individual pay for performance system whose winners and losers are determined behind closed doors sends a message that there is something to hide, that the decisions may be inequitable, and would not bear the scrutiny of the light of day.

Beyond compensation consultants, agency personnelists, and OPM, who wants to replace the General Schedule with a pay for performance system? The survey of federal employees published by OPM on March 25 may be trotted out by some as evidence that such a switch has employee support. But that would be a terrible misreading of the results of the poll. AFGE was given an opportunity to see a draft of some of the poll questions prior to its being implemented. We objected to numerous questions that seemed to be designed to encourage a

response supportive of individualized pay for performance. We do not know whether these questions were included in the final poll. The questions we objected to were along the lines of: Would you prefer a pay system that rewarded you for your excellence, even if it meant smaller pay raises for colleagues who don't pull their weight? Do you feel that the federal pay system adequately rewards you for your excellence and hard work? Who wouldn't say yes to both of those questions? Who ever feels adequately appreciated, and who doesn't secretly harbor a wish to see those who *appear* to be relatively lazy punished? Such questions are dangerously misleading.

The only question which needs to be asked of federal employees is the following: Are you willing to trade the annual pay adjustment passed by Congress, which also includes a locality adjustment, and any step or grade increases for which you are eligible, for a unilateral decision by your supervisor every year on whether and by how much your salary will be adjusted?

It is crucial to remember that the OPM poll was taken during a specific historical period when federal employees are experiencing rather extreme attacks on their jobs, their performance, and their patriotism. The Administration is aggressively seeking to privatize 850,000 federal jobs and in many agencies, is doing so in far too many cases without giving incumbent federal employees the opportunity to compete in defense of their jobs. After September 11, the Administration began a campaign to strip groups of federal employees of their civil service rights and their right to seek union representation through the process of collective bargaining. The insulting rationale was "national security"

and the explicit argument was that union membership and patriotism were incompatible. Some policy and lawmakers used the debate over the terms of the establishment of the Department of Homeland Security and DoD's National Security Personnel System as an opportunity to defame and destroy the reputation, the work ethic, loyalty, skill and trustworthiness of federal employees. And out of all of this has come an urgent rush to replace a pay system based upon objective criteria of job duties, prerequisite skills, knowledge, and abilities, and labor market data collected by the BLS with a so-called pay for performance system based on managerial discretion.

In this historical context, federal employees responded to a survey saying that they were satisfied with their pay. In fact, 64% percent expressed satisfaction and 56% believed that their pay was comparable to private sector pay.

But as the representative of 600,000 federal employees, AFGE would suggest that they are satisfied with their pay system, not their actual paychecks. Since the alternatives with which they have been threatened seem horrendous by comparison, expression of satisfaction with the status quo in a survey sponsored by an agency determined to give managers discretion or "flexibility" over pay is no surprise.

Perhaps more important for the subject of pay for performance in the context of the survey is the fact that 80% report that their work unit cooperates to get the job done and 80% report that they are held accountable for achieving results. Only 43% hold "leaders" such as supervisors and higher level

management in high regard; only 35% perceive a high level of motivation from their supervisors and managers, and only 45% say that managers let them know what is going on in the organization.

In this context, it seems reasonable to ask if the majority of employees are relatively satisfied with their pay, why the frantic rush to change? If federal supervisors and managers are held in such low regard, how will a system which grants them so much new authority, flexibility, unilateral power, and discretion be in the public interest? How will a pay system that relies on the fairness, competence, unprejudiced judgement, and rectitude of individual managers be viewed as fair when employees clearly do not trust their managers? Given that less than a third of respondents say managers do a good job of motivating them, is pay for performance just a lazy manager's blunt instrument that will mask federal managers' other deficits?

No discussion of federal pay is complete without consideration of funding. To the extent that pay for performance is proposed as a replacement for the General Schedule that would be "budget neutral" and exclude additional funding, AFGE will work in opposition. Federal salaries are too low, and they are too low not just for prospective employees, or employees in "hard to fill" positions or employees who intend to stay in government for short periods – federal salaries are too low for all federal employees. There may be legitimate disputes about the size of the gap between federal pay and non-federal pay, but it is indisputable that federal salaries are too low across-the-board.

As I mentioned, we are grateful and supportive of Congressional attention toward the inadequacy of federal compensation. We are also supportive of those who are looking for ways to reward federal employees financially for excellent and extraordinary performance. But at the same time we caution that rewards for excellence and extraordinary acts must be supplements to a fully funded regular pay system, not substitutes; and these supplements must be fully and separately funded. In addition, we support the provisions in S.129 and H.R. 1601 that provide training for managers and other employees. We applaud the recognition that failure to deal appropriately with poor performance is not a matter of the absence of authority or flexibility on the part of management, but rather a problem of either reluctance or poor training. Further, this provision recognizes that dealing with poor performance is a management problem and a discipline problem, not a pay system problem.

Our recommendations for a set of policies that would truly resolve the government's human capital crisis by facilitating a transition from one generation of well-trained, professional, and apolitical civil service employees to another are as follows:

1. Predicate authorization to exercise any of the enhanced management flexibilities described in S.129 and H.R. 1601 on the implementation of FEPCA's pay comparability provisions. Funding competitive salaries for all federal employees, and allowing the locality pay system to operate in order to bring federal salaries up to 90% of comparability should be the trigger that

allows expansion of authority to pay large recruitment or retention bonuses in exceptional circumstances.

2. Enact legislation that would put an immediate end to the ruinous and irrational practice of mandatory privatization quotas. Require that federal employees be given an opportunity to compete for a fraction of new government work and the same proportion of government work that has already been contracted out as is competed for work currently performed by federal employees, require that federal employees be given the opportunity to submit their best bids in the form of Most Efficient Organizations (MEO) in public-private competitions, and make sure that contractors be forced to at least promise a minimum cost savings prior to being allowed to take over government work as a means of bringing some integrity and accountability to federal service contracting.
3. Pass legislation that improves the funding formula for the Federal Employees Health Benefits Program (FEHBP) so that this benefit more closely resembles the health insurance programs that successful, large public and private sector organizations provide their employees. Some 250,000 federal employees are uninsured altogether in spite of their eligibility to participate in FEHBP. Their uninsured status is because they cannot afford the high premiums and high share of premiums required by FEHBP. Legislation introduced by Representative Steny Hoyer (D-Md.), H.R. 577; and Senator Barbara Mikulski

(D-Md.), S. 319; would improve FEHBP funding to an 80% employer-20% employee premium split. We believe that passage of this legislation would go a long way toward making the federal government a more attractive employer. In addition, require all FEHBP carriers to purchase prescription drugs from GSA's Federal Supply Schedule (FSS). Requiring FEHBP plans to purchase some of the prescription drugs they cover would go a long way toward restraining the growth of premiums in the program, which is important not only for making health insurance more affordable for federal employees, but will also allow in-house teams to be more competitive on behalf of taxpayers in public-private competitions.

4. We urge the Subcommittee to resist the temptation to jump on the anti-employee pay for performance bandwagon, whether for the Department of Defense, the Department of Homeland Security, or any other federal agency or department. Pay for performance schemes are, for the many reasons discussed above, a dangerous recipe for mismanagement, discord, discrimination, and destruction of morale and public sector ethos. We urge the Subcommittees to reject these schemes, and all requests for either agency by agency, or governmentwide authority to abandon the General Schedule and waive related chapters of title 5 that have successfully kept the civil service apart from politics, and allowed the federal workforce to be hired, fired, paid, promoted, disciplined, and communicated with on the basis of merit system principles. These laws exist to prevent our government

agencies and programs from falling prey to a spoils system, and we urge Members of the Subcommittee to retain your ability to make sure that they continue to be strong and successful in that endeavor.

This concludes my testimony, and I would be happy to answer any questions Members of the Subcommittee may have.